Assessment of Greece's financing needs

Greece's total gross financing needs for the period August 2015-August 2018, as estimated by the four institutions, is up to EUR 86 bn. In particular, the following financing needs are estimated over this period.

a. Medium and long-term debt redemption

Over the three years, Greece has to cover EUR 54.1 bn in debt amortisation and interest payments (EUR 37.5 bn in amortisation and EUR 16.6 bn in interest payments). Of the total amortisation due over the August 2015-August 2018 period, EUR 8.4 bn represents IMF debt redemption, EUR 9.2 bn is amortisation on the Eurosystem ANFA and SMP bonds, EUR 1.4 bn is for the BoG, EUR 15 bn is on other debt (of which EUR 7 bn for the EFSM bridge loan and EUR 8 bn to the private sector).

In terms of interest payments over this period, EUR 2.9 bn is due on the Eurosystem ANFA and SMP bonds, EUR 2.7 bn on the new Greek government bonds issued after the PSI exchange and mostly held by the private sector, EUR 1.8 bn on the EFSF PSI and bond interest facilities (which is not deferred), EUR 1.8 bn on the IMF loan, EUR 1 bn on the GLF loan and EUR 1 bn on the new ESM loan.

The amortisation payments also include the EUR 3.5 bn to unwind repo operations. The Greek fiscal framework did not allow inter-governmental borrowing amongst the various general government entities. As a result more expensive external borrowing was used to cover part of the State financing needs. Since Spring 2014 the Greek authorities implemented legislation that allowed general government entities to conduct repo operations with the State thereby covering part of its financing needs. This was meant as a temporary tool until the authorities implemented an in-depth cash management reform that would allow using part of the repo operations as a permanent source of funding.

Since the liquidity shortage the authorities have increasingly relied on repo operations to meet internal and external financing needs. The total stock of repo operations increased to EUR 9.7 bn by end-July 2015. Of this total stock we estimate that EUR 6.2 bn can be considered a permanent source of funding, while the remaining EUR 3.5 bn would have to be unwound and replaced with other sources of funding.

b. Fiscal needs

The targets agreed with the authorities for the primary fiscal balance in accrual terms as a percent of GDP are the following: -0.25% in 2015, 0.5% in 2016, 1.75% in 2017 and 3.5% from 2018 onwards. These targets together with the corresponding cash to accrual adjustment based on the measures agreed with the authorities lead to an overall reduction in financing needs of EUR 2 bn due to the contribution of the primary surplus.

The authorities also need to clear arrears given the tight financing conditions. Arrears clearance is estimated at EUR 7 bn over the programme period.

c. Financial sector

Following the uncertainty over the financing of the State and over the economic and financial policies by the Greek government in the last months, and the introduction of bank holidays, restrictions on deposit withdrawals and capital controls, the situation for the banks has dramatically worsened.

Hence, it is expected that banks will need to raise a substantial amount of capital over a relatively short period of time so as to remain compliant with regulatory requirements and to mitigate the loss of confidence resulting from the imposition of payment restrictions. Given that it is unlikely that banks will be able to secure private investment, capital injections will likely need to come from programme financing.

Current calculations estimate financing needs in the banking sector up to a total of EUR 25 bn.

d. Cash buffer for deposit build-up

The absence of programme disbursements since August 2014 and the complete lack of market access since October 2014 have caused the authorities to use internal resources to honour internal and external debt service payments. As a result, the liquidity situation has become very tight and total State deposits had decreased to well below EUR 1 bn by end-June 2015. The programme should allow re-building deposits to the EUR 5 bn level at the end of 2015 which had been agreed during the second adjustment programme. The total State deposit level is then projected to increase to EUR 8 bn by the end of the ESM programme. The increase in the cash buffer to EUR 8 bn would support the return of the Hellenic Republic to market financing over the programme period. The build-up of deposits also takes account of the need for Greece to replenish its SDR holdings (estimated at EUR 770 mn) which it had used in May 2015 to service its external debt.

e. Privatisation proceeds

Based on the agreed targets, privatisation receipts from non-bank assets are expected to lower financing needs by EUR 6.2 bn over the programme period. After the imposition of capital controls it is prudent to assume that receipts from the privatisation of bank assets materializes only after the programme period.

Based on all the elements above total gross financing needs for the programme period are estimated at the current juncture at EUR 86 bn.

Comparison with financing needs in the Eligibility Report

Compared to the Eligibility Report gross financing needs have increased by around EUR 4 bn, bringing the overall gross financing needs to EUR 86 bn. This is in line with the overall gross financing needs mentioned in the Euro area summit.

Table 1. Greece comparison of gross financing needs

	Eligibility report	Current assessment	Difference
Amortisation	33.8	30.5	
Repayment of IMF and BoG	2.1	-	
Repayment EFSM loan	-	7.0	1.6
Interes payments	17.8	16.6	-1.2
Total debt service	53.7	54.1	0.4
Arrears clearance	7.0	7.0	0.0
Cash buffer and SDR holdings replenishment	4.5	7.6	3.1
Bank recapitalisation	25.0	25.0	0.0
Privatisation	-2.5	-6.2	-3.7
Primary surplus	-6.0	-2.0	4.0
Total gross financing needs	**81.7**	**85.5**	**3.8**

The higher gross financing needs are due to a lower primary surplus than originally expected (EUR 4 bn), as well as to an increase in Greece's liquidity buffer at the end of the programme period in order to ease market access (EUR 3 bn). The increase in the gross financing needs is partially compensated by the expected higher contribution of privatisation receipts over the programme period compared to the projections in the Eligibility Report.

Total financing sources

a. SMP/ANFA profits

Total SMP and ANFA equivalent profits which could be transferred until July 2018 amount to EUR 7.7 bn. Given the Eurogroup statements of June/July 2015 the transfers of SMP and ANFA except those transferred by the Bank of Greece are not included in the table. A decision on resuming the transfers to Greece from other Member States may be taken in the course of the upcoming discussions on debt reducing measures.

Replacing the transfer of ANFA and SMP profits with a higher programme financing envelope deteriorates the DSA. The reason is that this would be replacing a grant with a loan and the programme envelope would only cover the ANFA and SMP profits due during the programme period, while the DSA assumes that Greece receives all the profits which run into the 2020s.

b. IMF

The IMF has unused funding of EUR 16 bn in its EFF which is to be replaced by a new three year IMF programme, that still needs to be negotiated and agreed with the Greek authorities. The precise envelope and quarterly profile of disbursement will be identified when the IMF will launch the new programme. Any quarterly disbursement by the IMF would allow the ESM quarterly disbursement to be reduced accordingly

c. Access to market financing

The main purpose of ESM financial assistance accompanied by a macroeconomic adjustment programme is to create the conditions that would allow the beneficiary member to gradually regain market access at affordable costs. While it is difficult to forecast when and to which extent market access is regained, it is consistent with past experience (including Greece itself) to assume that from the second half of the programme horizon, a beneficiary member state is able progressively to tap the markets. The amount raised in the markets will obviously reduce the amount of resources to be

provided by the official sector. Provided overall current market conditions and the search for yield, initial steps towards market access of Greece could even start earlier provided that a credible reform path is pursued by the government.

Short-term financing needs

The first tranche of the new ESM programme would need to cover: (i) financing needs not related to the banking sector between August and the release of the second tranche upon completion of the first review; (ii) up to EUR 25 bn for financing needs in the banking sector.

The financing needs not related to the banking sector until end-October amounts to around EUR 16 bn and can be disaggregated as follow:

- Debt service needs (amortisation and interest) of EUR 12.7 bn of which EUR 7 bn for the repayment of the EFSM loan, EUR 3.4 bn payment of principal and interest to the ECB, EUR 2.2 bn payment of principal and interest to the IMF and around EUR 100 mn for the debt service of other loans.
- EUR 1 bn for arrears clearance or accounts payable.
- Other fiscal needs of EUR 2.3 bn (financing of the State primary cash deficit). It is expected that from these, the State would transfer EUR 0.5bn to the segregated account for the management of EU Funded projects.

To cover such financing needs, the first tranche of the ESM programme appears sizeable. Against this background and considering the MoU policy requirements, it would be advisable to split the first tranche into a number of payments, subject to completion of different set of milestones. One option could be to have a first tranche of around EUR 13 bn, upon the approval of the programme, followed by two subsequent sub-tranches, following the completion by Greece of two different sets of milestones by September and October.

A decision still needs to be reached on the disbursement that would cover the financing needs in the banking sector. While there is agreement that EUR 10 bn should be made available immediately in line with the euro summit statement, the timing of the disbursement of the remaining EUR 15 bn is still under discussion. Given the uncertainties about the timing of the conclusion of the first review and the need for a swift recapitalisation of the banking system there are compelling reasons for a disbursement of the full EUR 25 bn with the first disbursement. Given these uncertainties, to cover other financing needs, including for debt service such as to the IMF, until the end of the year, would require releasing an additional EUR 2 bn.

Successive ESM disbursements would be fixed at a later date but an indicative schedule of financing needs and possible programmes disbursements can be found in table 2.

Table 2. Greece disbursement schedule August 2015-August 2018

Financing requirements Greece	2015					2016				2017				2018				
	August	September	October	November	December	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	July	August	Total
A. Financing needs	**23.0**	**2.0**	**16.0**	**3.7**	**3.2**	**5.9**	**5.4**	**4.8**	**1.9**	**1.7**	**7.8**	**3.8**	**4.8**	**2.4**	**2.0**	**2.8**	**0.5**	**91.7**
State deposit financing and SDR hodlings	1.2	0.0	-0.3	2.8	-0.4	2.9	2.8	0.1	-4.1	0.6	6.6	-3.6	-3.5	0.5	1.5	0.2	0.4	7.6
Debt service	10.5	1.5	0.7	0.3	1.3	3.9	2.4	5.2	1.3	2.6	3.0	8.6	4.6	3.1	1.7	3.0	0.5	54.1
State cash primary balance ('-'= surplus)	0.8	-0.3	-0.1	0.1	1.8	-1.9	-0.7	-1.2	4.0	-2.2	-1.8	-1.1	3.7	-1.1	-1.1	-0.4	-0.4	-2.0
Banking sector needs	10.0	0.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.0
Arrears clearance	0.5	0.8	0.8	0.5	0.5	1.0	1.0	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0
B. Financing sources	**23.0**	**2.0**	**16.0**	**3.7**	**3.2**	**5.9**	**5.4**	**4.8**	**1.9**	**1.7**	**7.8**	**3.8**	**4.8**	**2.4**	**2.0**	**2.8**	**0.5**	**91.7**
Privatisation revenues	0.0	0.0	0.0	0.0	1.2	0.9	0.9	0.9	0.9	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	6.2
B1. Programme financing	23.0	2.0	16.0	3.7	2.0	4.9	4.5	3.8	1.0	1.3	7.5	3.5	4.5	2.4	2.0	2.8	0.5	85.5
ANFA/SMP profits 1/	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
ESM	23.0	2.0	16.0	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
IMF tranches			TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
Memo items																		
Total State Deposit Stock (end-of-month)	2.3	2.4	2.0	4.8	4.4	6.6	9.3	9.4	5.3	6.0	12.5	8.9	5.4	5.9	7.4	7.5	7.9	

Note: 1/ The ANFA and SMP profits in the table only include the transfers from the Bank of Greece.